

Message Text

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ACTION EUR-12

INFO OCT-01 ISO-00 SP-02 USIA-15 AID-05 EB-07 NSC-05

CIEP-02 TRSE-00 SS-15 STR-04 OMB-01 CEA-01 CIAE-00

COME-00 FRB-01 INR-07 NSAE-00 XMB-04 OPIC-06 LAB-04

SIL-01 DODE-00 PM-04 H-02 L-03 PA-02 PRS-01 /105 W

----- 092279

R 211730Z JUL 76

FM AMEMBASSY ROME

TO SECSTATE WASHDC 8978

INFO USMISSION EC BRUSSELS

USMISSION OECD PARIS

AMCONSUL NAPLES

AMCONSUL MILAN

UNCLAS ROME 11787

E.O. 11652: N/A

TAGS: EFIN, IT

SUBJECT: OSSOLA REVIEWS ECONOMIC SITUATION WITH PRESS

PASS TREASURY AND FRB

1. ON JULY 21 SUMMARIES OF A PRESS INTERVIEW GIVEN BY RINALDO OSSOLA, DIRECTOR GENERAL OF BANK OF ITALY (BOI) CONCERNING ITALY'S ECONOMIC SITUATION RECEIVED WIDE ATTENTION IN BOTH FINANCIAL AND GENERAL PRESS. MAIN POINTS MADE BY OSSOLA FOLLOW.

2. INTERNATIONAL: (1) ITALIAN FOREIGN EXCHANGE RESERVES HAVE INCREASED BY OVER ONE BILLION DOLLARS SINCE THE JUNE 20 AND 21 ELECTIONS, (2) BOI INTERVENTION POLICY HAS BEEN "ELASTIC" AND "IN CONFORMITY WITH INTERNATIONAL MONETARY FUND DIRECTIVES CONCERNING INTERVENTION IN THE FOREX MARKET," (3) RECENT DEPRECIATION OF LIRA HAS NOT STIMULATED "A MAJOR INCREASE IN ITALY'S EXPORTS," (4) GOI HAS REQUESTED FROM IMF AND EEC A THREE-MONTH RENEWAL OF THE PRIOR DEPOSIT PROGRAM, AND (5) USE OF ITALY'S GOLD

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RESERVES AS LOAN COLLATERAL IN ORDER TO OBTAIN FOREIGN LOANS

"INSTEAD OF ADOPTING A RIGID ECONOMIC PROGRAM
WOULD BE PURE FOLLY,"

3. /DOMESTIC/: (1) "ABOVE ALL THE NEW ITALIAN GOVERNMENT
SHOULD REDUCE THE TREASURY DEFICIT, AS HAS BEEN DONE IN
GREAT BRITAIN, BEGINNING WITH YEAR'S BUDGET." THIS
REQUIRES AN INCREASE IN TAXES AND A "PARTICULARLY SEVERE
REDUCTION IN PUBLIC SPENDING, WHICH IN THE LAST FEW YEARS
HAS INCREASED AT AN UNACCEPTABLE RATE," (2) A WAGES OR INCOMES
POLICY IS NECESSARY WHICH WOULD LIMIT INCREASES IN WAGES TO
SAME RATE OF EXPANSION AS REAL NATIONAL INCOME,
(3) IT WILL BE NECESSARY TO EXPAND ITALY'S PRODUCTIVE
CAPACITY FOR BOTH EMPLOYMENT AND BALANCE OF PAYMENTS REASONS,
(4) OSSOLA IS PERSONALLY FAVORABLE TO FIXING AND MAKING
PUBLIC SPECIFIC GOI MONETARY OBJECTIVES AS IS DONE IN
GERMANY AND THE US. THE MAJOR OBJECTIVE WOULD BE A MORE
CERTAIN MONETARY ENVIRONMENT ALLOWING THE MAKING OF ECONOMIC
AND FINANCIAL DECISIONS, AND (5) EEC 1976 CREDIT LIMITS
PLACED ON ITALY HAVE AIM OF LIMITING THE MONETIZATION OF
THE TREASURY DEFICIT AND NOT ONLY THE EXPANSION OF OVERALL
CREDIT. VOLPE

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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: ECONOMIC CONDITIONS, PRESS CONFERENCES
Control Number: n/a
Copy: SINGLE
Draft Date: 21 JUL 1976
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: n/a
Disposition Approved on Date:
Disposition Authority: n/a
Disposition Case Number: n/a
Disposition Comment:
Disposition Date: 01 JAN 1960
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1976ROME11787
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Film Number: D760281-0569
From: ROME
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1976/newtext/t19760737/aaaabfts.tel
Line Count: 82
Locator: TEXT ON-LINE, ON MICROFILM
Office: ACTION EUR
Original Classification: UNCLASSIFIED
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 2
Previous Channel Indicators: n/a
Previous Classification: n/a
Previous Handling Restrictions: n/a
Reference: n/a
Review Action: RELEASED, APPROVED
Review Authority: KelleyW0
Review Comment: n/a
Review Content Flags:
Review Date: 22 APR 2004
Review Event:
Review Exemptions: n/a
Review History: RELEASED <22 APR 2004 by ThomasVJ>; APPROVED <27 DEC 2004 by KelleyW0>
Review Markings:

Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
04 MAY 2006

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: OSSOLA REVIEWS ECONOMIC SITUATION WITH PRESS PASS TREASURY AND FRB
TAGS: EFIN, IT, (OSSOLA, RINALDO)
To: STATE
Type: TE
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 04 MAY 2006